

AIRGRAM

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INTERNATIONAL COOPERATION ADMINISTRATION

AIRGRAM

SECURITY CLASSIFICATION

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FROM - CINCORE: SEOUL

SUBJECT - Senator Ellender's comments on Korean Program

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Having observed the specific criticisms made by Senator Ellender on the Korean program, I asked for and have received the following comment from Dr. Lowell J. Chawner, Economic and Financial Policy Adviser, which I think may be of interest to you.

"I. The accounting problem, upon which Senator Ellender is reported to have commented, has been explained to you by Mr. Harris subsequent to the date of your memorandum. It is true, as Mr. Harris has stated, that our accounting, both for the use of sales goods proceeds and for the use of project-type imports prior to the absorption of KCAC by OEC last November, was in bad shape and open to very severe criticism. Subsequently, as Mr. Harris has also explained, and especially during the past 6 months, our accounting practices and end-use checks have materially improved. I have nothing to add to Mr. Harris' comments to you on this subject.

"II. Senator Ellender may object in principle to the use of sales goods proceeds for the direct support of the Korean Military budget, but this practice is clearly authorized in the pertinent legislation of the Congress under which we operate.

"1. Public Law 480 of the 83rd Congress provides (Sec. 104) that 'the President may use or enter into agreements with friendly nations or organizations of nations to use the foreign currencies which accrue under this title for one or more of the following purposes':

"The third of these purposes enumerated under this Section is stated as follows: '(C) To procure military equipment, materials, facilities, and services for the common defense'. The agreements which the US has entered into with the Republic of Korea in FY 55 and FY 56 refer specifically to the purposes enumerated in Section 104c of Public Law 480 as one of the purposes for which the proceeds accruing from the sale to Korea of surplus agricultural commodities under this Act may be used.

AUTHORIZING OFFICER

William E. Wams

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"2. Section 402 of P.L. 665 of the 83rd Congress provides that the proceeds from the sale for local currencies of surplus agricultural commodities 'shall be used for the purposes of this Act and with particular emphasis on the purposes of the Agricultural Trade Development and Assistance Act of 1954 which are in harmony with the purposes of this Act'. These purposes refer to those identified in para 1 above, including 'to procure military equipment, materials, facilities, and services for the common defense'.

"3. The uses of the regular ICA Counterpart proceeds, or in the case of Korea the deposits into the Collection Account, are not identified as specifically in the Law as are those under land 2 above. These deposits into the Collection Account are held in the name of the ROK and under existing agreements with the ROK may be used for purposes agreed in the CEB. Although P.L. 665 does not specifically enumerate the uses to which sales proceeds from regular ICA financed imports may be used, Mr. Robert Parker and I have read the Law rather carefully and are of the opinion that these proceeds under the Law may be used for any of the general purposes of the Act. Under Chapter 3 of the Act (relating to Defense Support) 'the President is hereby authorized to furnish commodities, services, and financial and other assistance designed to sustain and increase military effort'.

"Section 502 of P.L. 665 does enumerate certain uses of foreign currencies accruing from the sale of aid goods, but the language of this Section appears to be limited to 'the proceeds of sales made under Section 550 of the Mutual Security Act of 1951'. The latter Act was specifically repealed by P.L. 665. It is of interest, however, to note that foreign currencies identified in this Section (Sec. 502) were authorized to be used 'for providing military assistance to nations or mutual defense organizations eligible to receive assistance under this Act' (meaning here P.L. 665). Although P.L. 665 is not fully definitive regarding the uses of foreign currency accruing from the sale of regular imports, there appears little doubt that these proceeds may be used for the purposes of the Act which clearly include 'the providing of military assistance to nations or mutual defense organizations' friendly to the United States.

"4. During FY 56, we received what essentially was a Unified Command instruction from Washington to allocate approximately 36 billion hwan for the support of the ROK military budget. The amount actually released for this purpose in support of the FY 56 budget was 35.5 billion hwan. I believe that all such releases have been fully in accord with existing laws and administrative instructions.

"5. As a matter of principle, in the interest of promoting sound fiscal management by the ROK and of discouraging the inclusion of certain items in the ROK budget which our military advisors (PROVMAAG-K) do not consider appropriate or desirable and other items which are considered to be excessive, we have recommended to Washington that sales goods proceeds should not be used to finance completely any deficit in military and general budget proposed by the ROK for FY 57. If the ROK insists on making such expenditures, it should do so from its own resources; failing this, it should trim the budget to come within available revenues including an appropriate allocation of funds from sales goods proceeds.

"PROVMAAG-K has estimated that the ROK may present a program of military expenditures during US FY 57 of approximately 95 billion hwan. An earlier estimate, 2 or 3 months ago, by the Ministry of Finance for this same period was 86 billion hwan. We have

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estimated that of the former amount (95 billion hwan) some 48 billion hwan might be expected to be funded from general ROK revenues and we have recommended that 41 billion hwan be allocated from sales goods proceeds from P.L. 480 and Section 402 imports. This figure of 41 billion hwan does not include the 6.5 billion hwan from aid goods sales proceeds released in July to complete the funding of the FY 56 ROK budget. In these proposals the indicated deficit in the FY 57 period might be in the order of 6 billion hwan (that is 95 minus 48 minus 41).

"III. Senator Ellender's third point that 'the Aid Program should be re-studied with a view toward increasing private capital participation rather than socialization of Korean economy' is in general a sound recommendation, although the innuendo is somewhat misleading. Our Policy Guidelines paper, which we sent to Washington in May, stressed strongly that the private sector of the investment program be substantially increased in FY 57. There is general agreement among the staff of the Mission on this point, not only because it represents general U.S. policy (as defined in the Aid legislation, administrative instructions from ICA, and the Presidential Directive establishing OEC) but also because it will facilitate Korean development by adding some private funds to those provided through the Aid Program.

"It should be noted, however, that the emphasis upon public projects in the FY 54 and FY 55 programs arose largely from two causes: (a) the urgent need for the improvement of railroads, increases in electric power, the repair of roads and bridges, and improved irrigation and flood control works, which, in their essential nature or by reason of their being taken over by the ROK Government as Vested Properties, were under Government control and; (b) the industrial sectors, such as mining and manufacturing, which were most suitable for private investment were initially the responsibility of UNKRA.

"Our program for FY 57 clearly will be less subject to Senator Ellender's criticism than those of earlier years. According to press dispatches from Washington a few days ago, Senator Ellender expects to visit Korea, among other countries, following his tour of the Soviet Union; if so, we may look forward to an opportunity to discuss some of the above issues with him."

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